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RUEHBU/AMEMBASSY BUENOS AIRES 7062
RUEHCV/AMEMBASSY CARACAS 4110
RUEHPE/AMEMBASSY LIMA 4438
RUEHMD/AMEMBASSY MADRID 4306
RUEHMN/AMEMBASSY MONTEVIDEO 5932
RUEHQT/AMEMBASSY QUITO 6727
RUEHSG/AMEMBASSY SANTIAGO 1504
RHMFISS/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
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C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 002388

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [ENRG](#) [EPET](#) [EINV](#) [BL](#)
SUBJECT: NO MAS RESPECT - CENTRAL BANKER DUMPED

Classified By: EcoPol Chief Mike Hammer for reasons 1.4 (b) and (d).

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Summary
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¶1. (C) The President of the Central Bank of Bolivia, Raul Garron, was officially removed from his post on November 5. His replacement will be former Minister of Planning Gabriel Loza. Hours before the official announcement Garron met with Econoff and speculated about the possible reasons for his dismissal. The most likely is that the Morales administration is anxious to more easily tap into Bolivia's foreign reserves and a more pliant Central Bank President will make this possible. However, Garron also mentioned three additional factors that may have led to his dismissal: 1) it may be an attempt by the Superintendent of Banks to cover-up mismanagement of his duties; 2) it may be a smoke-screen to distract from a scandal involving state-owned Banco Union; 3) or it may be a reaction to the realization of Garron's close ties to the U.S (Garron is an AmCit). Plausibly all four of these factors contributed to his dismissal; regardless, the loss of Garron's independent hand at the Central Bank brings all functioning national governmental institutions under Movement Toward Socialism (MAS) control. End Summary.

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Central Banker Unceremoniously Sacked
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¶2. (C) In the afternoon of November 4, the Minister of Treasury Luis Arce called the President of the Central Bank Raul Garron to inform him that President Evo Morales was removing him from his post. Arce said that he had a letter from the president removing Garron from his position in 48 hours. Garron met with Econoff at midday on November 5. He said that he never received the letter and his phone calls to the president were not answered. During the meeting, Garron received a call informing him that former Minister of Planning Gabriel Loza would assume the Central Bank presidency at 2:30 that afternoon. Garron left the meeting to prepare his public remarks but not before speculating

about four possible motives for his dismissal. During Garron's stewardship, Bolivia has accumulated an historic high level of foreign reserves (US\$7.5 billion) and maintained Central Bank independence. With MAS control over the Central Bank these accomplishments will be threatened.

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What Good is \$7.5 Billion If You Can't Spend It?
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13. (C) Bolivian law allows access to foreign reserves without Central Bank approval only if the request is backed by a law. For example, following the 2008 floods, the Morales administration solicited (and received) access to US\$600 million in reserves for natural disaster relief, as prescribed by Bolivian law. In this case, Garron had no choice but to allow access to these funds. (Note: To date only US\$250 million have been used by the government. Garron reports that there is no record of how even that percentage of the US\$600 million was spent. The administration could still access the remaining US\$350 million, but they have demonstrated little ability to effectively disburse the funds. End note). Without the backing of a law, access to foreign reserves can be denied by the Central Bank.

14. (C) Garron said that he had been under constant pressure to permit access to the Bolivian reserves. Requests for \$1 billion were made by both the state hydrocarbon company (YPFB) and by the Ministry of Treasury. YPFB President Santos Ramirez approached Garron directly for the money,

LA PAZ 00002388 002 OF 003

saying it was needed to carry out the "refounding" of the state company. Garron rejected the request pointing out that Ramirez could not justify how the \$1 billion would be used. Ramirez could not show how the funds would be administered, nor did he present a plausible business plan. Moreover, Garron reasoned that US\$1 billion goes quickly in the hydrocarbon industry and when would the requests for funds end? He said that Treasury wanted the money simply for "liquidity needs."

15. (C) While the suddenness of his removal came as a surprise, Garron did say that the pressure was becoming more intense and MAS access to the foreign reserves was inevitable. As a result, Garron was planning on resigning "soon". He said that he wanted to leave the Central Bank in good administrative and financial order and he realized that this would soon be an impossibility. While the \$7.5 billion figure of total reserves is trumpeted by the Morales administration, Garron estimated that the Bank has around \$2 billion in liquid assets which could be accessed by the government with a compliant Central Bank president.

16. (C) When asked how quickly the economy would react if those \$2 billion were taken by the MAS administration, Garron said the economy would immediately collapse. Bolivia needs around \$250 million a month to support its imports, which come from those liquid reserves. Moreover, signs of domestic financial jitterishness are already becoming evident. For example, through August no significant sales of the domestic currency were made in the foreign exchange markets. However, in September and October around \$350 million dollars were purchased and Garron estimated that half had left the country.

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Problems with the Superintendent of Banks?
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17. (C) The second reason that Garron suspects he may have been removed is because of pressure from the Superintendent of Banks Marcelo Zabalaga. Recently Zabalaga approached Garron about possibly needing \$400 million to support some troubled smaller banks. Garron thinks that the problem may be even greater and that Zabalaga has been pressuring for his

removal in order to have easier (and perhaps more discreet) access to Central Bank funding to support a number of institutions (Garron also suspects that the institutions themselves may be pressuring for his removal for similar reasons). According to Garron, if Zabalaga had been doing his job correctly, the problem may have been contained much earlier. However, with such loose (and perhaps complicit) control over the financial institutions, the hope is now for a Central Bank bail out without any tough questions being asked.

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To Distract from Scandal in Santa Cruz?
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18. (C) A possible third factor in Garron's dismissal is to distract attention from a growing scandal in Santa Cruz involving the state-owned Banco Union. Garron said that the sister of the Minister of Treasury Arce is a high official in the bank. The scandal involves the sale of land owned by Banco Union to a third party for \$400,000. This land was then sold within a week to the national housing program for \$2.4 million dollars. The deal is becoming public because housing constructed on the site was demolished by the local government. Although it seems a little farfetched, Garron believes that his firing may be to create a distraction from the land deals which underpin the scandal.

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Too Much the Gringo

LA PAZ 00002388 003 OF 003

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19. (C) Unknown until recently by the MAS leaders, Garron is an American citizen. His ties to the U.S. evidently become apparent to Minister Arce during his trip to Washington to testify for ATPDEA benefits. Over the same time period Garron hosted a dinner for the retiring Central Bank President of Paraguay. Garron thinks that his obvious comfort with the United States may have lead the Morales administration to conclude that he could no longer be trusted.

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Comment
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110. (C) With Gabriel Loza stepping in at the Central Bank, Bolivia's foreign reserves will now be under the care of an ideological leftist, who Garron labeled as a decidedly "mediocre economist". During his acceptance speech, Loza promised that the Central Bank would not become an "extension of the Ministry of Treasury". However, with Minister Arce seemingly behind Garron's sacking and an increasingly urgent need for cash from YPFB and Treasury, this may well be the implicit future for the institution.
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